



Friday, December 8, 2023

## **Basel Study Concludes Banks at Climate Risk Despite Lit-Survey Conclusions**

A new Basel Committee [working paper](#) provides a literature review of recent analyses of climate risk's impact on financial institutions to assess the drivers key to establishing the scenario analyses recently outlined in the Committee's final climate-risk principles ([see FSM Report CLIMATE14](#)) and those recently finalized by U.S. banking agencies ([see FSM Report CLIMATE17](#)). The paper looks specifically at the literature's conclusions about credit and bond spreads, expected return on non-financial equity, and real-estate prices – all of which were deemed to be key stress-test parameters. Omitting outlier papers, the Basel paper concludes that the climate risk's microeconomic impact is relatively small on identified portfolios with loan and bond spreads varying by about fifty basis points. Nonetheless, the paper reasons that banks likely under-estimate the extent of climate risk exposures because markets misprice them in studied spreads, the potential for risk correlations across portfolios, and the absence of critical physical and transition-risk data.

## **EU Regulators Seek AT1 Certainty**

Treasury and the EU today issued a joint [statement](#) summarizing topics discussed at this week's U.S.-EU financial regulatory forum. These included financial stability, bank-regulatory developments, AML, sustainable finance, supervisory coordination, and digital-finance operational resilience. Echoing prior concerns ([see Client Report REFORM228](#)), EU participants pushed US authorities to clarify the legal standing of contingent capital instruments under securities law. The U.S. and EU also discussed CBDCs, with EU officials providing an overview of the launch of a "preparation phase" for a digital Euro. The statement also notes noncommittal discussion of AI in financial services and financial data sharing.

## **Senate GOP Tackles U.S. Participation in FSB Entities**

Sens. Braun (R-IN), Hagerty (R-TN), and Marshall (R-KS) have introduced S. 3446, a [bill](#) to require the banking agencies to report on their interactions with nongovernmental international organizations. This is part of the broader campaign to block U.S. agencies from adhering to edicts such as the end-game capital rules, reaching also insurance and securities standards. H.R. 4649 was introduced in July by Rep. Loudermilk (R-GA) in connection with [hearings](#) accusing the U.S. agencies of sacrificing domestic interests and competitiveness via their work with global standard-setters. Neither the House nor Senate bill is likely to pass in this Congress.

## **HFSC Leadership Blast Hsu's Competence, Agency Operations**

HFSC Subcommittee Chairs Barr (R-KY), Huizenga (R-MI) and Hill (R-AR) sent a [letter](#) today to Acting Comptroller Michael Hsu continuing their attacks ([see Client Report FINTECH33](#)) against the OCC for its recently reported [hiring](#) of an individual with falsified credentials to oversee the OCC's Office of Financial Technology. Using the incident to challenge the OCC not only for the hiring lapse, but suggesting also that poor staffing may account for the lack of substantive analysis behind the capital proposal, the letter asks biting questions challenging the agency's credibility and Mr. Hsu's leadership. The letter also questions the extent to which Mr. Hsu understands the agency's Basel activities based on his statements at a mid-November hearing ([see Client Report REFORM230](#)). The chairs request a briefing and response by December 21.

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### **Recent Files Available for Downloading**

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: [www.fedfin.com](http://www.fedfin.com) or clients may

obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- **GSIB23**: The agencies' capital proposal ([see FSM Report CAPITAL230](#)) unsurprisingly dominated discussion at today's Senate Banking hearing with big bank CEOs.
- **FINTECH33**: At today's HFSC Digital Assets Subcommittee hearing on banking agency financial innovation, Republicans raised concerns about the Fed's novel activities guidance ([see FSM Report FINTECH32](#)), interagency guidance on third-party risk management ([see FSM Report VENDOR10](#)), and the SEC's predictive data analytics [proposal](#).
- **CONSUMER54**: Today's Senate Banking hearing with Director Chopra was even more cordial than yesterday's HFSC session ([see Client Report CONSUMER53](#)) even though Republicans continued to criticize the Bureau's recent rulemakings.
- **GSE-113023**: A new FRB-NY [study](#) confirms that 83% of loans from 2000-2022 went to first-time homebuyers, compared to 56% for the GSEs and 57% for private lenders.
- **CONSUMER53**: In sharp contrast to most recent HFSC hearings with CFPB Director Chopra, today's session was relatively calm.
- **GSE-112723**: The most significant thing in FHFA's final capital [rule](#) is not what is to be done, but what FHFA left out: ending the GSEs' advanced-approach requirement.
- **DEPOSITINSURANCE122**: As the law requires and the FDIC Chairman promised after SVB and Signature Bank were declared systemic, the FDIC has finalized its proposed approach to imposing a systemic assessment to reimburse the Deposit Insurance Fund (DIF) for the resolution costs related to uninsured deposits following a systemic designation.
- **GSE-111623**: As our reports on the [Senate](#) and [House](#) hearings with bank regulators made clear, [our prediction](#) that the agencies would compromise on mortgage risk-based capital requirements will prove itself in the final standards.
- **REFORM230**: Following yesterday's Senate Banking hearing ([see Client Report REFORM229](#)), today's HFSC session with top bank regulators again highlighted growing bipartisan consternation over the unintended consequences of the agencies' capital proposal ([see FSM Report CAPITAL230](#)).
- **PAYMENT27**: Building on its director's longstanding focus on fintech and tech-platform companies, the CFPB has proposed to extend its supervisory reach to nonbank providers of general-use digital payments services.
- **REFORM229**: Today's Senate Banking hearing with top bank regulators showcased broad bipartisan concern over the interagency capital proposal ([see FSM Report CAPITAL230](#)).
- **SIFI37**: In concert with finalizing a new systemic-risk methodology, the Financial Stability Oversight Council issued guidance that significantly rewrites the manner in which nonbanks are designated as systemically important financial institutions (SIFIs), largely retaining its initial proposal.
- **SYSTEMIC98**: Rejecting the Trump Administration's hands-off approach to designating systemically-important nonbank financial institutions or activities and practices, the Biden Administration's FSOC has finalized its bifurcated proposals to designate systemic entities and another laying out an analytical approach to identifying systemic risk that would then guide firm and activity designation as well as Council staff coordination with primary federal regulators.